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As I see it

SHOULD THE APPRAISER BE AN "ADVOCATE"?

AMONG professional appraisers the most severe condemnation of another appraiser is to call him an "advocate appraiser." By this is meant that he has ceased to be an impartial observer and is now espousing a cause, which almost automatically results in a higher or a lower valuation than would otherwise be determined.

In the June 1960 Mortgage Banker, the official publication of the Mortgage Bankers Association of America, Perry I. Prentice, editor and publisher of House and Home, has an article entitled, "Why Can't We Build Better Housing Than We Are Now?" In this article he blames the appraiser and the mortgage lender for much of the lack of quality in today's houses. He says that the appraiser can no longer hide from his responsibility behind the obsolete shibboleth that the market makes the price, and the appraiser merely evaluates it. He quotes Arthur Watkins, "The outmoded view of the appraisers, whose importance in homebuilding is often overlooked, is a widespread reason for mediocre design." He asks what appraisers are doing to encourage air conditioning, adequate wiring and piping, adequate room size, sufficient storage space, and a second bath. What is the appraiser doing to debunk high land prices? He suggests that what a home will sell for 20 years from now is more important than what it will sell for today.

House and Home and the Architectural Forum, both published by Time, Inc., have made a splendid contribution to the building industry and, in my opinion, occupy the same dominant position in the building field that other Time publications do in the various fields that they cover. To most of the opinions which Mr. Prentice expresses in this article, however, I am in direct opposition. In my opinion, it is not the appraiser's duty to sell the public on good construction, nor on some particular conventional or functional design. He should not be concerned with whether or not a particular family feels the need for a second or third bathroom or for better wiring or for more storage space. His responsibility lies in looking at a specific property with all of its good points and its faults, and in estimating what a prospective buyer will pay for it. His guide in arriving at his opinion is not what it cost to build, although he does figure replacement cost. He is not concerned with whether it is air conditioned or not, except as he has found that air conditioning, or its lack, af-

fects the price the average buyer will pay. His principal guide in arriving at a dollar valuation is based on what buyers have been willing to pay for other properties which have sold recently, having similar good and bad points.

In 1946, according to our records, many buyers throughout the United States were buying residential properties probably 25 to 30 years old, and were paying for these properties an amount equivalent to the cost of producing them new, entirely disregarding the effects of accrued depreciation. This high price was due to the housing shortage that existed at the time, and was a scarcity premium which a scarce article in strong demand always carries. In the appraisals we made then we recognized and certified to the price that the property would bring in the market. Our appraisals, however, carried the statement that this price included a considerable scarcity premium which was due to the unusual market conditions.

Suppose, as appraisers, we had said then that the property which was selling for \$20,000 was "worth" only \$14,000. Our appraisal would clearly have been unfair to the seller, as we would have underestimated the fair market value by 30%. Peculiarly, our appraisal would also have been unfair to the buyer, as it would have prevented his buying a house which he needed, at the average market price at that time. Had the buyer waited to buy a piece of property at what Mr. Prentice would probably have considered a fair price, he would still be waiting, as selling prices did not come down, and are now approximately 60% higher than they were then, in spite of the additional 14 years of accrued depreciation.

I live in a suburb where no sale of a residential property has ever exceeded \$55,000. Many houses have been built in this area which cost much more than that, but on resale they have sunk to \$55,000 or less. Should an appraiser in this area assume that one of the better residences is worth replacement cost less physical deterioration? Since these houses are modern and well maintained, this would result in a price considerably higher than the previous limit. Would it be right? It certainly would not be what fair market value is generally assumed to be -- the price arrived at by a willing seller and a willing buyer, both familiar with all of the pertinent facts.

I rather suspect that what Mr. Prentice has in mind is not an appraisal certificate but a certificate of excellence of construction, which is quite a different thing. Some of the best built buildings have been foreclosed because they were misplaced, or because it took too long to secure tenants, or because they were built at the wrong time, or just because.

What is the appraiser doing to debunk high land values? Again, I think this is not the province of the appraiser. I would agree with Mr. Prentice that there is no real shortage of land but that much of it has been held off the market for higher prices. This is being solved in many metropolitan areas at the present time by appraisers following exactly the opposite course from the one

he would suggest. Appraisers are accepting the values at which land has been selling, and as a result local reassessment programs are also accepting them. Farm lands in the metropolitan areas formerly assessed on the basis of rural acreage are now being assessed on the basis of potential development into subdivisions. I know of a case where land which was assessed on a value of \$150 per acre was bought by an industrial plant for \$3,500 per acre, and a portion of it which the plant did not need was resold for \$9,000 an acre. A great deal of land which was on the assessment rolls in our own county at \$450 an acre or less, is, in some cases, being raised to \$4,500 or more. When the assessor used his judgment, as Mr. Prentice thinks an appraiser should do in arriving at values, rather than actual sales in the market, sales price has been too high because of the restricted supply. When the assessor applies actual selling prices to similar land, the supply will increase faster than the demand, and prices will drop. The reassessment programs going on at the present time throughout the United States should do a great deal to lower unreasonable land prices.

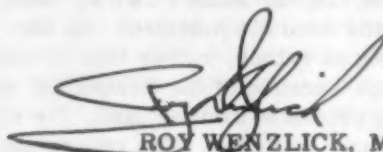
It is easy to be impatient with progress. Most persons who believe in a Welfare State, if pinned down, would I believe say that it takes too long to accomplish results if we depend solely on the reactions of individuals in the market place. Government must step in and speed up the process.

The fact that, in a free market economy, in the past we have developed the highest standards of living the world has ever known, does not seem to impress those impatient with our rate of progress. The fact that many people prefer to live in squalor and ride in splendor is considered deplorable, as are many other decisions of consumers in a free market.

That many prospective home buyers are not willing or are unable to pay for quality construction is certainly true. Their judgment may be bad, their taste may be terrible, but it is their judgment and their taste, and in a free economy that is the final answer. Either the individual must be free to buy what he thinks will give him the greatest satisfaction or some dictator, benevolent or otherwise, must take on the job of selecting for him the things he should buy. I am certain that if some of my Welfare State friends were controlling consumption, they would reduce greatly the purchases of chewing gum and chewing tobacco. I doubt very seriously whether they would reduce the purchases of cigarettes, as most of them smoke, and we consider nonessential only the things which do not appeal to us personally.

I will agree with Mr. Prentice that a selling job should be done on good construction and on the advantages of owning a well-designed and well-built home. I am not at all sure, however, that my ideas of a well-designed home and his would be the same; in fact, I am rather certain that they would not be. The greatest disagreement between us, however, seems to be that I object to the appraiser as a salesman or advocate.

A competent appraiser is not a promoter but has a judicial type of mind. He is not concerned with trying to persuade, but is concerned solely with the attempt to measure the market and to evaluate the particular property in question. If I expected to buy a piece of property and employed an appraiser to tell me its fair market value, I would not expect him to try to sell me the type house he thought I should have. That I believe is for me to decide. If my taste is poor, at least it is the taste I am going to have to live with, and I would probably be very unhappy in an aesthetic building that was beyond my capabilities of appreciating.



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